

4.2 Fiscal policy

Name: _____ Class: _____ Date: _____

Total: 19 marks

KEY WORDS government spending • budget • fiscal policy
• budget deficit • direct tax

Objective

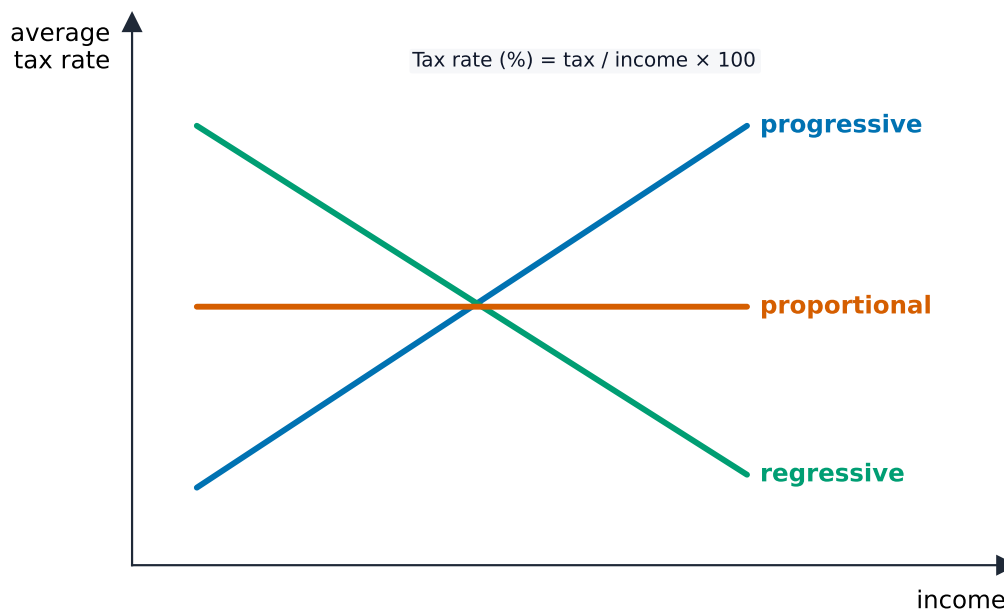
Build the skills to answer exam questions on **fiscal policy** – **government spending and taxation**, the **budget** (deficit/surplus), **types of tax**, and how fiscal policy manages the economy.

You must be able to:

- explain fiscal policy, budget deficit and surplus
- classify taxes (direct/indirect, progressive/regressive)
- analyse how fiscal policy affects the economy

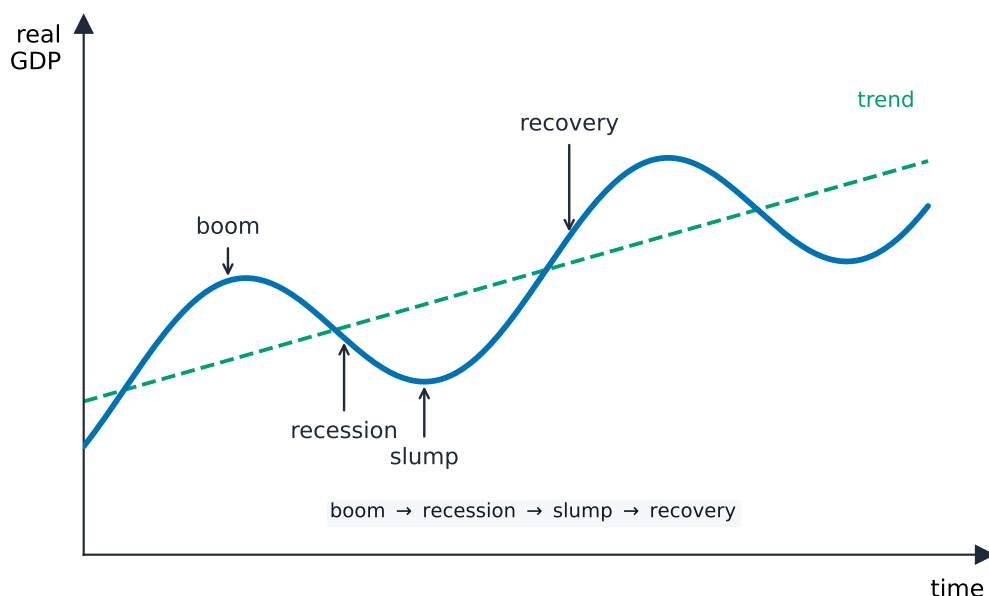
1 Key knowledge and worked examples

■ Spending, tax and the budget



Fiscal policy = government spending and taxation

- **Budget deficit** : spending > tax (must borrow). **Surplus** : tax > spending.
- **Direct tax** : on income/profit. **Indirect tax** : on spending.
- **Progressive tax** : rate rises with income (redistributes). **Regressive tax** : rate falls with income.
- **Boost the economy**: more spending or lower taxes (raises demand) – but may cause inflation.



Fiscal policy is used across the cycle – expansionary in a recession, tighter in a boom

Answer shapes: K + App + An + Ev (a justified judgement, for discuss questions).

2 Practice

2.1 Define the term *fiscal policy*.

[2]

2.2 State the difference between a *direct* and an *indirect* tax.

[2]

2.3 Define the term *budget deficit*.

[2]

3 Exam-style questions

3.1 A progressive tax takes:

$$[1]$$


- A a bigger percentage from higher incomes
B a smaller percentage from higher incomes
C the same percentage from everyone
D no tax from the rich

3.2 Explain how a government could use fiscal policy to increase economic growth.

[4]

3.3 Discuss whether raising taxes is a good way for a government to reduce inflation. [8]

[8]